

Congress of the United States
CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Elizabeth Warren

Congressional Oversight Panel Field Hearing on Commercial Real Estate

Atlanta, Georgia
January 27, 2010

Good morning. My name is Elizabeth Warren, and I am the Chair of the Congressional Oversight Panel. I would like to begin by extending our sincere thanks to the City of Atlanta and to Georgia Tech for hosting us and for helping to plan today's hearing.

Congress established our Panel in October of 2008 to oversee the expenditure of funds from the \$700 billion Troubled Asset Relief Program, commonly referred to as the TARP. We issue monthly oversight reports that analyze and evaluate the Treasury Department's administration of this program and their efforts to stabilize our economy.

As part of our work, we travel from time to time to areas of the country that have been especially hard-hit by aspects of the financial crisis. This morning, our work has brought us to Atlanta to learn more about the wave of foreclosures and vacancies sweeping through your commercial real estate markets.

To prepare for this hearing, we did some research—and what we discovered was deeply disturbing. We learned that vacancy rates for Atlanta retail and office space grew throughout 2009, eventually topping 20 percent. Commercial property values have declined across the board, and the price-per-square-foot of office space has fallen by 50 percent. These declines have severely threatened bank balance sheets, contributing to the failures of 30 Georgia banks since August of 2008—more than in any other state in the nation.

Many experts believe that Atlanta's experience could foreshadow a problem that could echo across the country. Such a crisis could cause damage far beyond the borrowers and lenders who participate in any one transaction. More empty storefronts could translate into more lost jobs, more lost productivity, and prolonged pain for middle-class families. Commercial loan defaults could lead to deep losses for banks and, potentially, to raise the specter of more taxpayer-funded bailouts. Foreclosures of apartment complexes and multi-family housing developments could push families out of their residences—even if they have never missed a rent payment. And because the modern financial industry is so deeply interconnected, a downturn in the commercial credit markets could spread to the rest of our financial system.

Against this backdrop, the Panel is holding today's hearing to explore the troubles in commercial real estate. We hope that, by learning from Atlanta's experiences, we may better advance our oversight responsibilities and public understanding of this important problem.

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Although no one can predict the course that the commercial real estate markets will take, the problems appear at a time when banks have already experienced massive losses. We should closely examine their stability. For example, the stress tests conducted of America's largest banks examined their financial standing only through 2010. How will these institutions cope if a commercial real estate crisis causes severe losses in 2011, 2012, and 2013? Have Treasury and the Federal Reserve fully examined this question? And, given that TARP itself is due to expire in October of this year, how much can TARP do to address these challenges?

Commercial real estate also poses particular threats to small- and mid-sized banks, which are often the key sources of loans for commercial projects in their communities. Given that these smaller banks have never faced stress tests, how likely are small financial institutions to survive a significant shock in commercial real estate? How can Treasury's programs, which until now have focused on supporting the very largest financial institutions, provide support to smaller banks? What are the implications for the FDIC if the rate of bank failures, already high, starts to rise at a steeper rate?

These are hard questions, and we are grateful to be joined by experts who can begin to find answers, including government experts representing the Federal Reserve and the Federal Deposit Insurance Corporation, as well as local bankers and investors. We thank you for your willingness to share your perspectives, and we look forward to your testimony.